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INTEREST PAYMENTS AND GOVERNMENT EXPENDITURE IN THE EUROPEAN UNION

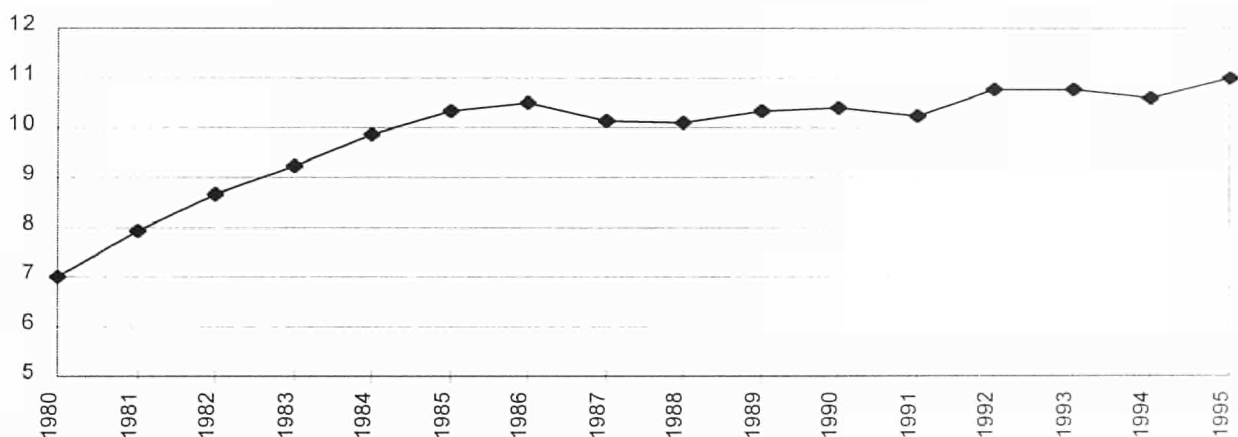
This edition of 'Statistics in Focus' sets out some key figures on the share of government current and capital expenditure accounted for by interest payments.¹

The data presented here were obtained using a harmonized methodology, the European System of Integrated Economic Accounts (ESA).

Long-term increase in interest payments on government debt

Long-term comparison reveals that interest payments on government debt account for a growing share of government (current and capital) expenditure. That share was 7 % in 1980, rising to 10.5 % in 1986 and recently rising again to a new high of 11 % in 1995. (Figure 1 and Table 1).

Figure 1 : Share of interest payments in government expenditure in the EU*, 1980-1995, in %



*Excluding Greece and Luxembourg

¹ More detailed data may be found in Eurostat's 'General Government Accounts and Statistics' and the regularly updated 'New Cronos' database. Detailed information on the 'New Cronos' database may be obtained from Eurostat Data Shop, 2 rue J. Engling, L-1466 Luxembourg. Tel.: +352 43352251; Fax +352 43352221.

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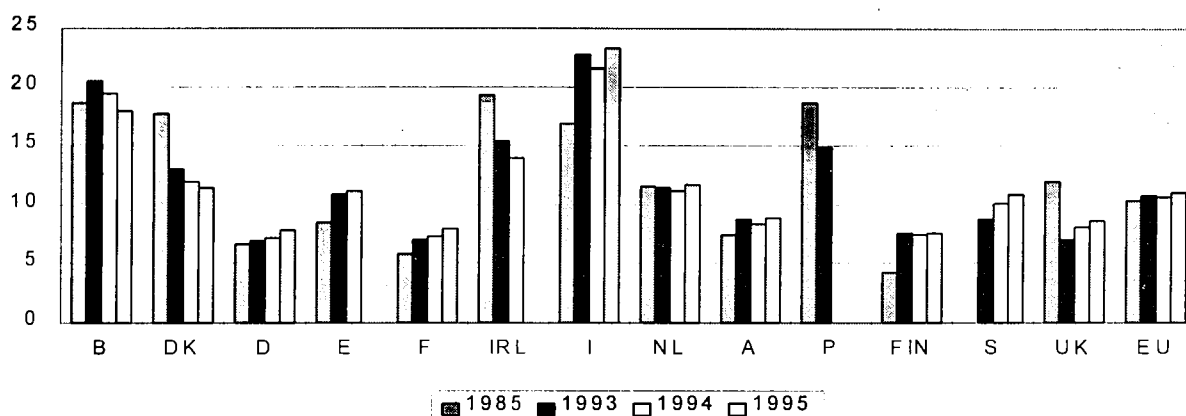
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Figure 2 : Share of interest payments in government expenditure in the EU*, 1985 and 1993-95



*Excluding Greece and Luxembourg

The shares have been stable or have declined in five of the last 15 years, but increased more rapidly than government-sector expenditure in ten of those years.

Table 1: Government interest Expenditure and Government Expenditure in the EU*, 1980-1995

	Interest payments (% of GDP)	Government expenditure (% of GDP)	Interest (% of government expenditure)
1980	3,0	42,8	7,0
1981	3,6	45,0	8,0
1982	4,0	45,8	8,7
1983	4,3	46,1	9,2
1984	4,5	46,1	9,9
1985	4,8	46,3	10,3
1986	4,8	45,7	10,5
1987	4,6	45,2	10,1
1988	4,5	44,4	10,1
1989	4,6	44,3	10,3
1990	4,7	45,3	10,4
1991	4,8	46,9	10,2
1992	5,2	48,3	10,8
1993	5,4	49,7	10,8
1994	5,2	48,7	10,6
1995	5,4	48,4	11,0

*Excluding Greece and Luxembourg

Similar trend in most Member States ...

In 1995, the share of interest payments in government expenditure declined compared with the previous year in two of the ten Member States for which data are available (Table 2). The share rose in the eight other Member States, with Italy recording the largest increase from 21.5 to 23.2 % of government expenditure. There were declines in Belgium and Denmark (-1.5 and -0.5 percentage points). The long-term trends over the period since 1985 show that the

steepest declines of the share of interest expenditure in government expenditure were in Denmark (-6.1 points) and in Ireland (1994) (-5.4 points), while there were rather substantial increases in Italy and Finland (+6.3 and +3.3 percentage points respectively).

... but significant differences in levels

As can be seen from Table 2 and Figure 2, there are considerable differences, not only in the rates of change, but also in the share of government expenditure accounted for by interest payments. Belgium and Italy, at 18 and 23.2 %, have by far the largest shares. A second group, lying between 8% and 12%, consists of Denmark, Spain, France, the Netherlands, Austria, Sweden, and the United Kingdom. Germany and Finland are below 8%.


Factors affecting interest rates

Changes in the share of government expenditure accounted for by interest payments depend on various factors: All other things being equal, a higher debt means a higher interest burden. Rates of interest payable on government debt also affect debt servicing. The higher interest rates are, the higher is the amount of interest payments (again, all other things being equal). Changes in the level of government spending, which represent the denominator of the share of interest payments in government expenditure, are also a determining factor. Consequently, spending cuts result -in the short term- in an increase of the share of interest payments in government expenditure. Exchange rate fluctuations, some of which have been considerable in recent years, have been an additional factor in Member States with government debt

denominated in foreign currency. Any interpretation of the changing share of interest payments in

government expenditure must take account of these factors.

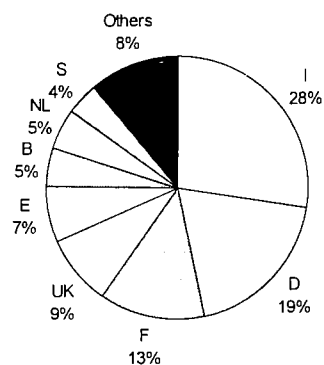
Table 2 : Share of interest payments in government expenditure in the Member States of the EU*, in %

	1970	1975	1980	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996**
B	8,0	7,2	11,3	18,6	19,8	19,4	19,3	20,5	21,1	20,0	20,8	20,4	19,5	18,0	1760
DK	3,2	2,7	7,5	17,6	17,0	15,5	14,4	13,4	13,3	13,3	11,9	13,0	11,9	11,5	1700
D	2,3	2,7	4,1	6,7	6,7	6,5	6,4	6,3	6,0	5,8	7,0	6,9	7,2	7,8	850
E	:	:	2,3	8,5	9,9	8,9	8,6	8,5	8,9	9,1	9,4	11,0	11,1	:	620
F	3,0	2,9	3,4	5,8	6,0	5,8	5,6	5,9	6,3	6,4	6,8	7,1	7,3	8,0	800
IRL	9,9	9,3	12,9	19,3	18,3	18,8	18,5	19,1	19,1	17,8	16,4	15,4	13,9	:	720
I	5,5	9,8	13,6	16,9	18,0	17,0	17,5	18,8	19,6	20,6	22,3	22,7	21,5	23,2	1710
NL	6,9	6,1	6,8	11,5	11,6	11,3	11,6	11,5	11,2	11,5	11,6	11,5	11,2	11,7	1140
A	:	:	5,5	7,5	7,6	8,2	8,4	8,7	9,0	9,2	9,1	8,8	8,4	8,9	970
P	:	:	8,0	18,7	21,6	20,3	18,8	16,9	20,9	19,3	17,6	14,9	:	:	410
FIN	:	:	2,8	4,3	4,0	3,9	3,8	3,6	3,2	3,6	4,4	7,6	7,5	7,6	1100
S	:	:	:	:	:	:	:	9,3	8,6	8,5	8,2	8,8	10,2	11,0	1580
UK	11,3	9,4	12,0	12,0	11,0	11,1	10,5	10,1	8,9	7,5	7,0	7,1	8,1	8,7	540
EU	:	:	7,0	10,3	10,5	10,1	10,1	10,3	10,4	10,2	10,8	10,8	10,6	11,0	970

*Excluding Greece and Luxembourg. ** Per capita interest payments on Government Debt in ECU (1996)

Expenditure figures for Germany and the Netherlands exclude the one-off effect related to former East German companies debt assumption (D) and debt assumption of social housing corporations (NL).

Figure 3: EU interest payments on government debt, 1996: 362 bn ECU



Interest payments in the EU: Comparison of absolute values

The final aspect to be dealt with in this report is the absolute value of interest payments in the EU. In 1996, the EU total was 362 billion ECU (Figure 3). Of this, 47 % was accounted for by Germany and Italy (19 % and 28 % respectively). At the other end of the spectrum, the combined interest payments of the

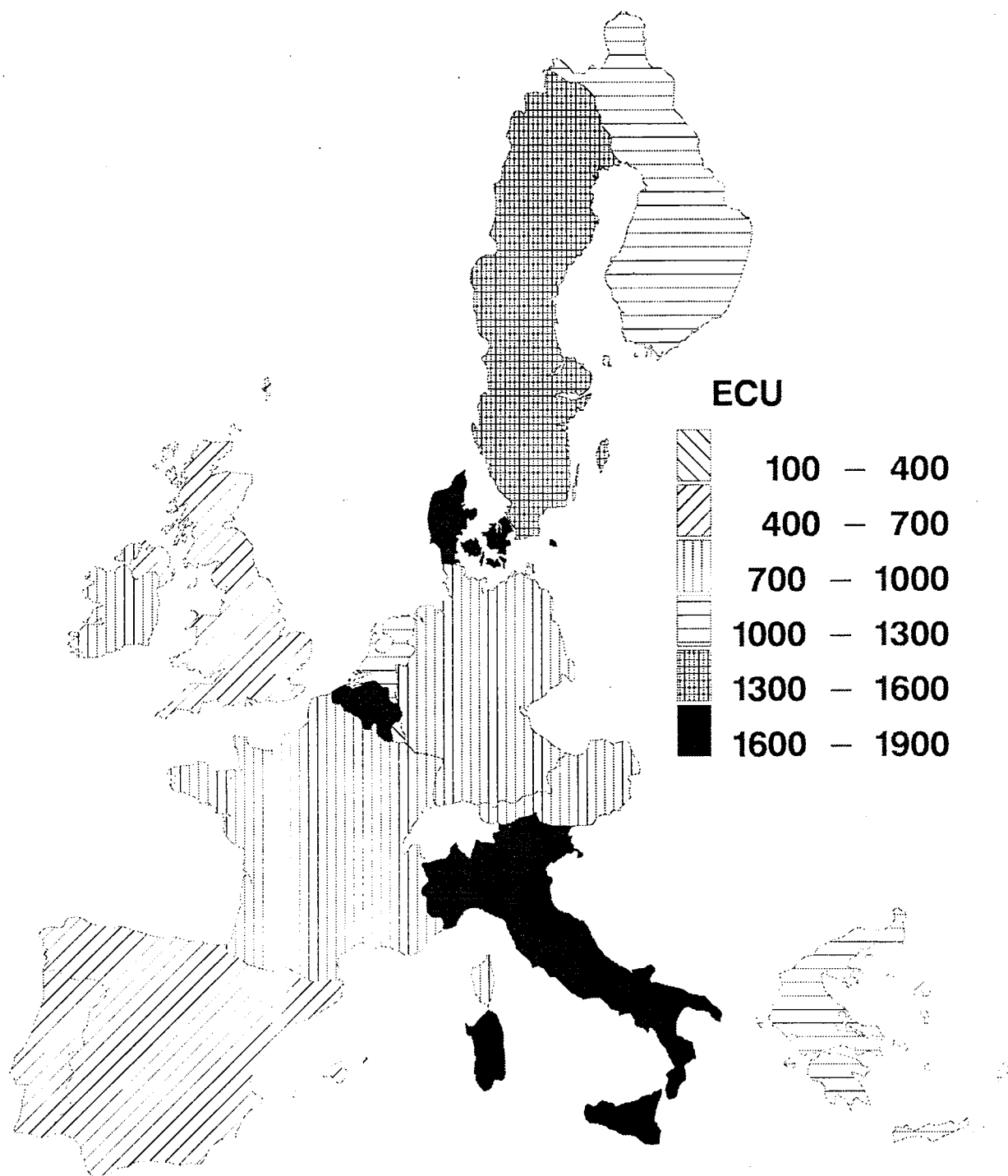
seven Member States not explicitly mentioned in Figure 3 amounted to just 8 % of all government interest payments in the EU.

The map on page 4 gives a picture of 1996 per capita interest payments on government debt in ECU, which are to be seen in the last column of Table 2. Here, Belgium, Italy and Denmark show per capita values of approx. 1700 ECU while most other Member States remain below the EU average of 970 ECU.

Conclusion

The growth in the government debt has limited the room for manoeuvre in government expenditure. In Belgium and Italy, one-fifth of government expenditure is used to service the government debt, while in many other Member States the figure is about one-tenth. Some Member States (e.g. Ireland and Denmark) have achieved reductions, some of them significant, in the share of interest payments in government expenditure. However, the EU average of this share increased in 1995 to a new maximum value of 11 %.

Per Capita Interest Payments on Government Debt



1996